Compliments of the First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

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THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE upward trend of industrial activity has continued during the past month, and in nearly all important lines is reported close to capacity or restricted only by the labor supply. The present output of construction materials, transportation equipment and manufactured goods generally has never been surpassed. Moreover, it is worthy of note that the activity of 1917, the year with the greatest production record, was largely expended upon war equipment and supplies. The output of iron and steel was then going largely into guns and shells while now it is going into building material, railroad equipment, automobiles and machinery. The output of the textile industries was going largely at that time to clothe the armies, while now it is going to supply the general trade demands. The use to which things are put has bearing in the long run upon the level of prices. The present level is chiefly due to the fact that for several years our industries were busy upon production that added nothing to the necessary equipment of the country. We were not building dwelling houses or railroad equipment to meet the growing needs of the country, and now we are trying to catch up. One of the reasons why farm products are not on as high a level as other things is that the demand for farm products is not cumulative. The fact that consumption is stinted in one year does not make a larger demand in the next year; people do their eating for each year in that year.

Prosperity the Result of Balanced Industry

We have constantly emphasized the equilibrium in industry as the fundamental condition of prosperity. It is rarely maintained in full degree for very long; we are usually either rising to it or falling away from it. This is because the industrial organization is a voluntary one, in which everybody is free to make his own policies, and the business community is prone to go one way or the other with a rush. The movement of prices is largely a matter of psychology: if the idea gets abroad that prices will rise, buying sets in on a scale that may carry them beyond all reason, and on the other hand if the idea spreads that a decline has set in, the market may be overweighted on the selling side, to such an extent as will carry them far too low. These swings of sentiment and of prices affect production, employment and consumption.

During the war we had the great swing of prices upward, under such pressure for manpower that nearly all products and services rose rather closely together; and so long as the equilibrium was fairly well maintained, we had the appearance of prosperity, although in fact it was a false appearance, because so much of the industrial effort was being wasted. That waste was bound to make itself felt eventually. It could not be always covered up by the advancing wages and prices. The situation was steadily getting out of balance, and eventually collapsed.

If everything had come down together, so that the equilibrium would have been maintained on a lower level, a quick recovery would have been made, because there would have been buying power in the markets equal to full production. Some of the industries, however, successfully resisted deflation and found themselves up in the air for a year or more, with only a limited demand for their products or services. Moreover, on the falling market buying was arbitrarily curtailed and industries were halted in lines where a shortage actually existed, as in construction work of various kinds. House-building should have been going on at top speed ever since the war, the steel industry should have been operating to capacity, instead of falling in 1921 to 53 per cent of the output of 1920. When, however, the opinion spread that prices were as low as they were likely to go, at least for the time being, the pressure for needed construction and replenishing supplies in many lines forced a resumption of buying, and the revival began. As prices began to rise, confidence gained and expenditures increased, until the country has reached the full swing of expanding activity and rising prices. It is working now not only to supply present needs, but to make up the deficit inherited from the war and the

idleness of 1921 and provide for anticipated needs.

For the time being the situation is fairly well balanced, for while agriculture is not back fully in line as a purchaser, the accumulation of demands in other quarters for the present makes good the shortage in that quarter.

The Outlook

How long will the equilibrium be maintained? The outlook for business at this time is very good. If industrial costs and the general level of prices could be held where they are, there is every reason to believe that this pace might be maintained at least through the present year, perhaps longer; moreover, with some modifications, such as naturally would occur if not met with organized resistance, the period of prosperity might be extended indefinitely.

The check will come as the relationships between various groups of producers are altered, affecting the basis upon which they exchange services. The farmers regained in 1922 a part of what they lost in 1921, but in January, 1923, farm products had but 68 per cent of the purchasing power over other things that they had in 1913. The tendency now, as other things are rising, is against them. The producers of flour, meat and most of the foodstuffs are supplying them to the wage-earners of the other industries upon an exchange basis that is unfair to the farmer. Moreover, the farmers are not the only people being placed at a disadvantage. A great number of the wage-earners will not be able to get their pay increased to correspond with the rises that are talked of in some of the favored industries. As prices rise all those whose incomes are not increased in equal proportion will have to curtail expenditures somewhere.

Retail Prices Lag Behind Production Costs

As yet these rising costs are only slightly reflected in retail prices. They are taking place in the processes of manufacture. The woolen goods manufacturers of New England have generally granted an advance of 12½ per cent to their employes and leading cotton goods manufacturers are doing the same. These will be reflected in cloths and garments months hence, and the effect upon consumers' demands cannot be known until then. In both instances these increases in the cost of manufacture follow important increases in the cost of the raw material, so that there is double reason for concern about the effect on the consumptive demand. A great part of the cotton goods production is sold to populations whose buying power at best is very low.

The farm implements which are being sold this spring have been made at lower costs than such implements can be produced for from this time forward. The test of the effect upon agriculture will come when this year's production is offered at retail. And so it goes throughout the industries.

Carrying the Risk

This interim between the advance of costs and the movement of the goods into consumption presents the chief problem of the situation. Manufacturers and dealers are in doubt how far it is safe to go with this rising price movement. Manufacturers to some extent are covered by orders, but they were covered likewise in the Spring of 1920 and had most of the orders cancelled. Retail dealers cannot cover.

Evidently it is not desirable to have prices advanced beyond the level at which consumption can be sustained. The temporary character of these periods of expanding demand has been demonstrated over and over again. The phenomena are all familiar—a congestion of demands, due in part to a preceding period of depression, rising costs and prices, curtailment of demand, downward turn of prices, cessation of buying until costs and prices are readjusted on a lower level, then a repetition of the program. When the time of depression and unemployment comes, unemployment conferences are held to consider how industry may be stabilized, and agitation develops against the so-called "capitalist" order of society under which such deplorable conditions exist.

Overdoing Prosperity

The trouble arises from the impatient efforts of the public to drive the industrial organization beyond its capacity. A competitive situation develops in which the various industries bid against each other for the limited supply of labor and materials. The labor organizations recognize their opportunity, and naturally make the most of it, to their own disadvantage later, because the wage-earners are as much interested as anybody in stable conditions. When the available labor supply is already fully employed, a competitive struggle over it does not increase production. It simply forces up wages and prices until declining consumption offers an effective check, and unfortunately it is then too late to avoid the backward swing into depression. It is more difficult to adjust wages and prices downward than upward, and a state of prosperity which if intelligently kept in balance might have lasted for years, is thus wrecked.

There is good reason for believing that the level of industrial costs in this country is already fully as high as can be sustained, with a general revival of industry and competition over the world.

Postponing Work

There are hopeful signs in many quarters of an inclination to hold up enterprises that have been under consideration and await the turn for equipment and materials, rather than struggle for precedence under advancing costs. Every such decision tends to prolong the present period of prosperity, and is in every way advantageous. Secretary Hoover has done a wise thing in writing a letter to the President urging the suspension of building operations by the United States government until there is a relaxation of the present demand upon the building trade industries. The policy should be adopted by public authorities generally and in private operations so far as may be necessary to keep the demands upon the industries within their capacity.

The capacity of the industries in their full swing is very great, and there is no reason to doubt that they will be able to supply all wants without very protracted delays.

The Question of Inflation

Much that is written upon the subject of "inflation" treats it as mainly a banking condition, to be judged by the state of reserves and the ability of the banks to grant credit without undue expansion, having regard simply for their own safety. This view does not include the most important phase of the subject under existing conditions. Bank reserves in this country are unusually high, as the result of a heavy movement of gold to this country, which in turn has been the result of the one-sided state of our foreign trade during and since the war. We undoubtedly have more than our proper share of the world's gold, based upon such a balanced state of trade as is mutually advantageous, and allowing for the reserves which other countries should have, as a base for their currencies and to maintain stable exchanges. One reason then why bank credits in this country should not be expanded to conform to the present reserves is that present conditions are abnormal and that eventually we probably will have to give up a portion of these reserves.

Moreover, as set forth above, the industries of the country are already working practically at capacity, or to the limit of the labor supply. Under this condition they cannot use much more credit to advantage. They have all they need at the present level of prices; the use of more will do nothing but finance a competitive struggle and drive up costs and prices, which clearly is undesirable.

Credit should be available to finance expanding production, but when production has reached its limit credit expansion has reached the limit of its usefulness also. The place to exercise the most effective control over inflation is at its beginning. Since the banking system should aim to give stability to the business situation, it follows that in regulating the supply of credit it should be governed by the state of industrial activity as well as by the state of its reserves.

Just a Little Inflation

We have a letter containing the following inquiry, and as it presents a point frequently raised, we give it in full:

> Would not an inflationary period of say some two years duration, and within more reasonable limits than the last period of inflation, be beneficial in the direction of making it possible for the government to derive much larger income taxes through the plentifulness of cheap money than could possibly accrue with business moving at a more normal pace? It is not conceivable that the ordinary expenses of the government would increase sufficiently to take up this increase in tax receipts, and this would make it possible to very effectively reduce the present large principal of government indebtedness, mak.ng the reduction of principal and the payment of interest considerably easier for succeeding years.

This suggestion is answered in the foregoing. The country's wealth and the government's revenues must be increased by production. It is desirable to supply credit to the extent that production may be increased, but to this extent there is no inflation. Beyond this point, where additions to the credit supply expend their influence in forcing up wages and prices, every increase of prices means a corresponding reaction later which more than offsets the apparent benefits of the boom. The government revenues might gain during the inflation but they would fall below normal when the inflation had spent itself. Business is best served by stable conditions.

Inflation is a difficult condition to deal with, for prices that are made by inflation require more inflation to sustain them. As with the use of liquor or a drug, more is constantly required to produce the same effect.

It is true that a permanent increase in the supply of money may establish a permanently higher price level, but that depends upon international adjustments, and we already have in this country a level of prices which the international adjustments are likely to lower.

Agricultural Credits Act

In the last days of the recent session the Congress rather hurriedly put together the Lenroot and Capper bills and passed them as an act under the title of the "Agricultural Act of 1923," together with certain amendments to the Federal Reserve act making the newly authorized agricultural credits rediscountable upon certain terms at the reserve banks, and providing for the admission to the Reserve system of State banks having a paid-up capital of $15.000 upon condition that the capital shall be increased to the present minimum, $25,000,

out of earnings. The Act also provides for extending the time under which the War Finance Corporation may continue to make advances up to February 29, 1924, and for a joint Congressional Committee to inquire into the failure of eligible State banks to join the Federal Reserve system.

The Lenroot and Capper bills were put together practically as independent measures, and their provisions will be administered separately, those of the Lenroot bill under the Federal Farm Loan Board and those of the Capper bill under the Comptroller of the Currency. Although the scope of the two systems is not quite the same, they are so much alike in character and purpose as to suggest that if the legislators had had more time the measures might have been advantageously merged and operated with less machinery.

The Lenroot system establishes twelve Federal Intermediate Credit Banks, as adjuncts to the existing Federal Farm Land Banks. The officials of the Land Banks are to be the officials of the new institutions, and direct their operations, but while the new institutions are modeled closely after the Land Banks, they are entirely independent in capital, assets and liabilities. Instead of lending upon land security and making such loans the basis of debentures, the new banks are to lend upon paper based on personal or corporate credit, supported by endorsements, warehouse receipts, chattel mortgages, etc., and make such paper the basis of debentures.

Capital and Functions

The capital for these Intermediate Credit Banks is to be $5,000,000 each, supplied by the Treasury of the United States, the Secretary of the Treasury being instructed to subscribe for the stock. The banks will not do business with individual borrowers, but are authorized—

(1) To discount for, or purchase from, any national bank, and/or any State bank, trust company, agricultural credit corporation, incorporated live-stock loan company, savings institution, cooperative bank, cooperative credit or marketing association of agricultural producers, organized under the laws of any State, and/or any other Federal Intermediate Credit Bank, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening, or marketing of live stock:

(2) To buy or sell, with or without recourse, debentures issued by any other Federal Intermediate Credit Bank; and

(3) To make loans or advances direct to any cooperative association organized under the laws of any State and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or live stock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on live stock: Provided, That no such loan or advance shall exceed 75 per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the live stock covered by said mortgages.

The amount of paper which an Intermediate Bank may purchase or discount for a local bank is limited by a restriction corresponding to the lawful rights of the latter to incur such liabilities. Other provisions regarding loans are as follows:

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal Intermediate Credit Bank of not less than six months nor more than three years. Any Federal Intermediate Credit Bank may in its discretion sell loans or discounts made under this section, with or without its indorsement.

(d) Rates of interest or discount charged by the Federal Intermediate Credit banks upon such loans and discounts shall be subject to the approval of the Federal Farm Loan Board. On the majority vote of the members of the Federal Farm Loan Board any Federal Intermediate Credit Bank shall be required to rediscount the discounted paper of any other Federal Intermediate Credit Bank at rates of interest to be fixed by the Federal Farm Loan Board.

The Federal Intermediate Credit Banks will have authority to issue collateral trust debentures, or bonds, to be sold to investors, with a maturity at time of issue of not more than five years, which shall be secured by at least a like face value of cash or obligations purchased or discounted under the foregoing provisions; this authority to issue debentures being limited to ten times the bank's paid-up capital and surplus. Rates of interest on debentures or other obligations shall be fixed by the Federal Farm Loan Board but must not exceed 6 per cent per annum. The United States Government assumes no liability upon such issues.

The spread between the rate of interest on debentures and the rate of interest or discount maintained by an Intermediate Bank shall not exceed 1 per cent. The rate of interest or discount charged by banks or other organizations rediscounting with an Intermediate Bank must not exceed the rate charged by the latter by more than 1½ per cent.

The net earnings of the Intermediate Banks will be divided equally, one-half going to the United States Treasury and one-half to the surplus fund of the Bank, until the surplus fund equals the capital and the Treasury is thus reimbursed, after which 10 per cent shall be added to surplus and the remainder will go to the Treasury as a franchise tax.

The debentures and other obligations of the Intermediate Banks shall be tax-exempt, the same as in the case of the Federal Land Banks. They will swell the volume of investments available to persons of large incomes, and by means of which the latter may readily and lawfully escape the high income surtaxes.

National Agricultural Credit Associations

The credit organizations contemplated by the Capper end of the Act are called National Agricultural Credit Associations. They are to be organized under and supervised by the

Comptroller of the Currency, like national banks, including examinations.

The class of business they are authorized to do is practically the same as that to be done by the Intermediate Credit Banks, except that while the latter may take paper ranging in maturity from 6 months to 3 years, these associations are restricted to paper running not more than 9 months from the time of purchase, except where secured by mortgage on live stock, when the paper may run three years. They may issue collateral trust debentures, and pledge the paper which they have purchased. They may charge interest rates not in excess of the legal rates in the States in which they are operating.

The United States Government supplies no capital for these National Agricultural Credit Corporations, nor is their number limited. They are a form of debenture corporation which may be organized anywhere, provided that they must have a subscribed capital of not less than $250,000, at least one-half paid-up in cash. Unlike the Intermediate Credit Banks, these associations may do business directly with the public. It is further provided, however, that National Agricultural Credit Associations having an authorized capital of $1,000,000, instead of having the right to do business direct with the public shall be institutions of rediscount, like the Intermediate Credit Banks, except that they may rediscount only for banking institutions that are members of the Federal Reserve system, and purchase paper from cooperative agricultural associations upon the security of warehouse receipts or shipping documents.

Member banks of the Federal Reserve system are permitted to become stockholders in National Agricultural Credit Associations, to the extent of 10 per cent of their capital and surplus.

Shares in National Agricultural Credit Associations, dividends upon them, or income from their obligations, are not exempt from taxation, but State taxation must not be higher than upon national banks or other moneyed capital in the hands of individual citizens.

There are numerous provisions for safeguarding the operations of these associations and regulating their administration which need not be mentioned here.

Comments Upon the Legislation

Bankers generally have abstained from comment upon these measures while they were pending, for the reason that while they have been skeptical as to the value of the legislation, and have considered some features objectionable, they have not regarded the forms of credit proposed as actually unsound, and have been indisposed to antagonize projects so widely heralded as offering relief to agriculture. The Economy Policy Commission of the American Bankers' Association went so far as to endorse the general plan, although its endorsement did not apply to the loan of government funds. This has naturally followed the inauguration of the policy for the land banks. Every new form of government aid or class legislation suggests further steps in the same direction.

It is a curious circumstance that this special legislation should be carried through with great acclaim by the leadership of a group that at the very same time was proclaiming its virtuous intention to do away henceforth with all class legislation, and denouncing the ship-subsidy bill in particular because it proposed to take money from the Treasury for the benefit of a class.

There is much to be said on the principle against voting aid out of the Treasury for any class of business, but it never will be said very effectively by people who want an exception made of their own business. Of course the farmers believe that aid for agriculture will benefit everybody, but no measure of government aid was ever offered for which the same argument was not urged.

Need for the Legislation.

There is very little in the new legislation for which authority does not exist under the State laws, or which goes beyond the common practice of the national and state banks throughout the country. We pointed out some months ago that a corporation was already doing business at Des Moines, known as the Iowa Farm Credit Corporation, with a paid-up capital of more than $1,000,000, which was able to do practically everything that either of the Intermediate Credit Banks or the National Agricultural Credit Associations can do, except issue tax-exempt securities. As for carrying loans nine months or longer, it is a familiar fact that subject to renewal such loans have been plentiful enough in both state and national banks throughout all their history.

The common statement that the rule of the Federal Reserve banks against rediscounting agricultural paper of more than six months maturity prevented the farmers from obtaining longer credit, has ignored the fact that the paper may run six months from the time it is rediscounted by the Reserve bank, in addition to the time it has been held by the member bank. The statement that the Federal Reserve system is not helpful to agriculture fails also to take account of the fact that the ability to rediscount any kind of paper with the Reserve banks enlarges the ability of the member banks to give accommodations to farmers.

It remains to be demonstrated that there is any considerable number of farmers of the class able to offer security for credit who have not been getting it. The complaint of lack of credit facilities has been chiefly from people who could not offer a proper basis for accommodations or who have borrowed more than is good for them, although in boom times the banks are sometimes at fault in misplacing so much credit that they do not have enough to go around where it is deserved. All of this, however, does not prove that credit facilities are inadequate.

The first condition precedent to the use of credit is that the would-be borrower shall have demonstrated that he is capable of using it advantageously. The best way he can do this is by working for wages, saving something from his wages and making a small start with the capital thus acquired. The man who is able to make a showing of this kind generally is able to command a proportionate amount of additional capital.

Use of Credit Overdone

There is a tendency to over-estimate what might be done if a great fund of credit was made available. People are prone to think if only a reservoir of credit could be tapped conditions might be revolutionized. They imagine that all farms might be improved, production increased, living and working conditions changed forthwith; but this is not possible. Such changes are gradual and evolutionary. Even if the credit or money was to be had, the physical labor required would have to be spread over a long time. The real improvement of conditions is accomplished by the labor that can be spared for that purpose over and above that required to make a living.

The amount of capital that is available for borrowing is limited, and exaggerated by the various schemes that are always being advanced for floating bond issues. It must be saved by somebody, and if more emphasis was laid upon saving and less upon borrowing progress would be more rapid. The use of credit within reasonable limits is good: it enables persons who have capital and who by reason of advancing years, want of experience or lack of inclination are unable to use it, to place it at the command of other persons who desire and have the opportunity to use it. The transfer under such conditions increases production, but the manufacture of credit on a great scale does not increase the supply of labor or increase production. There is no doubt that the amount of credit commonly in use is far beyond the needs of industry, and that the production of the country might be fully as great as it is with a very much smaller employment of credit.

Evil Effects of Excessive Indebtedness

This excessive use of credit tends to make the business situation more sensitive and uncertain. It makes the fluctuations of prices and employment more violent. It is mainly responsible for our great swings between prosperity and depression. If a person owns a given property without indebtedness he is in a more secure position than if he owns twice as much property only one-half paid for, and if in his eagerness for big profits he gets to be the owner of four times as much property but in debt for 75 per cent of its value, his position is precarious. When such over-reaching becomes general, the situation is critical, and ripe for a collapse.

The average man thinks he could make money rapidly if he only had plenty of credit to work with, but experience goes to show that the average man will do better to plod along the steady course of saving something from what he earns, confining his investments rather closely to his savings, at least until he has made substantial accumulations, and by that time the question of where he can get credit will have solved itself.

If any illustration was needed of the futility of great borrowing facilities to improve the condition of the farmers the increase of farm mortgage indebtedness in the United States by about 130 per cent in the ten years from 1910 to 1920 would supply it. Does anybody think the productive capacity of the farms increased in that proportion, or that the position of farm-owners as a class was improved by that borrowing?

This increase of mortgage indebtedness was largely due to a competitive struggle for land, promoted by the facilities for borrowing, and it had the effect of greatly increasing the selling values of land, which of itself was no real gain to agriculture. The borrowing facilities were intended to aid the would-be purchaser of land, but it is a question whether the net result was not to make it more difficult for young farmers to attain ownership.

The cattle industry has been named as suffering especially from want of credit, but in this case the situation was clearly the result of a previous over-expansion of credit. For several years a competitive situation existed, cattle-growers bidding against each other for stock cattle and financing themselves largely with borrowed money. They ran prices up until the industry was in an unsafe position. The situation was more critical by reason of the fact that so much of the borrowing was on short-time paper, and in this respect the new legislation for long-term credit is expected to be helpful, but the fundamental cause of the trouble was too much borrowing, regardless of terms. Too much credit was

responsible for the excessive prices of stock cattle, which increased the grower's investment and made it more difficult for him to produce beef cattle at a profit. There probably would have been as many cattle in the country without so much indebtedness on them, just as there would have been as much land in the country if there had not been so much indebtedness placed on it.

It is only as production is stimulated that any general benefit can come from increased credit facilities, and it seems a little strange that throughout the discussion of these credit measures no account seems to have been taken of the fact that according to common complaint in the agricultural districts production is too large now, making prices too low.

State Banks and the Reserve System

The Joint Committee of Congress to conduct the inquiry into the disinclination of state banks to join the Reserve system consists, on the part of the Senate of McLean, of Connecticut, Weiller, of Maryland, and Glass, of Virginia; on the part of the House of McFadden of Pennsylvania, Dale of Vermont, Strong of Kansas, Wingo of Arkansas and Steagall of Alabama. It has been stated that the committee will not begin its inquiry for some weeks yet.

The amendment to the reserve act voted at the last session, by which state banks having a paid-up capital of $15,000 may join the reserve system under the condition that they shall set aside at least 20 per cent of their net earnings annually for the increase of their capital until the latter reaches $25,000, seems to set the seal of Congressional approval upon stock dividends based upon earnings, notwithstanding recent Congressional oratory on that subject.

Price-Fixing

The proposition that the government should guarantee a "fair price" for staple products, in order that the producer may know what he can count upon, evidently has obtained wide currency in the agricultural districts, and was put before the last Congress in definite form by a bill introduced by Senator Gooding, of Idaho, proposing an appropriation of $300,000,000 to stabilize the price of wheat at $1.75 per bushel for the crop of 1923, and at such price for the crops of 1924 and 1925 as may be fixed later by the "Wheat Stabilizing Corporation" to be established by the bill. The bill received a favorable report by the Committee on Agriculture of the Senate, but was not reached on the calendar before the adjournment of Congress.

Perhaps it is well to have the proposition put in tangible form, for its weaknesses are more apparent in the details than in a vague general proposition. The United States exports approximately 25 per cent of its wheat production, and this portion must be sold in world markets in competition with wheat grown in other countries. Wheat is grown everywhere, and the production of other countries can be readily increased if there is a relatively better price for wheat than for other crops. The effect of raising the price of wheat in this country above the price of competing supplies would be to cause all other supplies to be taken first, and at the enhanced price the rest of the world would soon arrange to get along without any wheat from the United States. At the same time, the higher price would stimulate production in the United States, and tend to shift consumption to other foodstuffs, unless the prices of the latter were fixed to correspond, and the government would have to buy and store the increasing surplus, without any prospect of its ever being wanted. Of course the folly of this would soon be apparent, and the plan would have to be abandoned or the government would have to assume the task of limiting the production of wheat. How would the government go about regulating the production of wheat? Would it say that each farmer might put only a certain percentage of his land in wheat, regardless of the size of his farm or the character of the soil and its adaptability to wheat, or would it undertake to name farmers who might grow wheat and farmers who must grow other crops? Evidently the regulation of the production of wheat would be a very important new governmental function.

Prices Interdependent

The advocates of government price-fixing apparently have little comprehension of the complex system of prices which exists throughout the business world, and which adjusts production and consumption to each other. There is a far-reaching relationship of prices—an equilibrium of prices—which must be maintained in order that the exchanges may readily go on. These relationships are changing all the time with changes in supply and demand. If a grain crop is short the price of that product must go up in order to throw the demand to some substitute, while if the crop is large the price must go down in order to stimulate consumption. The markets are quick to respond to these influences. Producers know that their goods must move into consumption or they will be forced to curtail production. To fix a price above the figure at which goods will be taken for consumption is folly.

Example of Corn and Live Stock

Almost the only demand for corn is for feed for live stock, and it is necessary that there shall be a relationship between the pro-

duction of live stock and of corn. Sometimes this relationship is lost sight of for a while, and the balance is lost. In 1920 corn was too high to be fed profitably, and a good many farmers reduced their holdings of live stock, particularly hogs. Then in 1921 and the fore part of 1922 there were not enough animals to balance the supply of corn, with the result that corn fed to hogs yielded about $1.00 per bushel while corn was selling in the markets at 40 to 60 cents per bushel. The cry went up that the government should fix the price of corn at a fair price, but the situation corrected itself in 1922, when the farmers produced more pigs to eat the corn, and so brought the relationship between corn and hogs back to normal. That change was brought about automatically by the low price of corn. If the government had undertaken to relieve the situation by buying corn for storage at a "fair price," the farmers might have gone on indefinitely raising more corn than there were hogs to eat it, and the government would have had no way of disposing of the corn. Under the pressure of economic law the farmers brought the situation back into balance, and the only real remedy was put into effect.

This example of corn and hogs illustrates the entire price situation. The goods which one group of people produces must be traded for the goods which the other groups produce. Money is a convenient intermediary, but it is a mistake to suppose that anybody, government included, can pay money for products unless he can turn around and dispose of the products for consumption. It does no class of producers any good to have their products simply pile up in storehouses; that process must soon come to an end. There must be a prompt adjustment of price-relationships throughout industry in order that all kinds of products may be taken off the market and consumed. When the changing character of this relationship is understood the utter impracticability of government price-fixing will be seen. It may serve a temporary purpose in time of great emergency, like war-time, when the government is trying to concentrate all the energies of the nation upon one purpose, but as a permanent policy it simply interferes with the beneficent workings of economic law.

Prices Must Conform to Natural Conditions

A knowledge of the workings of economic law also answers the sensational alarms that are sent out about arbitrary price-fixing in various lines. Price-fixing by combinations of producers must take account of natural market conditions. The price must be low enough to move the entire product into consumption and high enough to induce sufficient production to meet the demand. This means that price fixing cannot for any considerable time be an arbitrary action. It will defeat its purpose unless it complies with both of the foregoing conditions. The arbitrary price-fixer, given ever so much power, really has very little choice. He wants the largest aggregate profit, and in nearly all businesses that is obtained on a large production, hence we find as a rule that big business seeks a large volume of output on a small margin of profit.

The Cooperative Raisin Growers

The raisin-growers of California have furnished an example of successful cooperative business. They control a large proportion of the raisin production of California, and have been successful in bringing order out of chaos in the industry, and making the industry profitable.

When the "Sun-Maid Raisin-Growers" was formed in 1912 there apparently existed a state of over-production in the industry, for prices to grape growers were unremunerative, the growers were in debt and the outlook unpromising. Under the operations of the association the demand for raisins has enormously increased, prices have advanced to a remunerative basis, and production has increased several times over.

The records of tonnage handled by the association, and of prices and aggregate value of production handled is as follows:

Year	Tonnage handled by Association	Value	Price per lb. f. o. b. California
1912	24,512	$1,499,470.71	$0.0625
1913	59,228	4,275,743.67	.0666
1914	73,635	5,244,725.21	.0707
1915	98,405	7,570,808.99	.0740
1916	107,039	10,262,597.77	.0888
1917	127,212	13,992,787.59	.0925
1918	149,713	16,530,045.01	.1163
1919	159,262	36,345,138.43	.1662
1920	152,497	38,456,827.82	.1871
1921	120,000	39,048,000.00	.1627
1922	180,000	37,980,000.00	.1055
1923	240,000 (estimated)		

The tonnage of the early years was disproportionately small, inasmuch as the association was building up its membership, and did not handle the share of the crop which it has later. Mr. Seymour, its general manager, has stated that the average of the total tonnage for the five years prior to 1912 was about 70,000 tons. The organization now handles about 90 per cent of the raisin production.

The raisin-growers have been very prosperous in recent years, as may be judged by the figures for prices and values. Their lands have advanced to high selling values, $1,000 per acre or thereabouts, they have had money to spend or invest, and the cities in the raisin territory have all reflected the improved conditions.

It might appear to the casual observer that all this had been brought about simply by raising the price through concentrated control over selling, but the management knows

better than that. The fundamental factor in the improved conditions has been the increased consumption. Before the association began operations raisins were a drug on the market, with a heavy carry-over from year to year depressing the price, but a demand was developed which cleared up the crop year after year at advancing prices.

Developing the Demand.

Probably the raisin-growers took a leaf from the experience of other fruit-growers on the Pacific Coast, who had learned to standardize their product, guarantee quality, and market it in an attractive manner. At any rate, they offered raisins in appetizing array, and then they launched upon an advertising campaign which has involved a steadily increasing expenditure, until for 1923 the appropriation is said to be $1,200,000. The advance in price has been an incident to the increased demand and would not have been possible without it.

The raisin-producers within the Sun-Maid association, however, have no monopoly. It is favorable to the formation of such an association that the bulk of the raisin grapes are grown within a comparatively small territory, instead of over a great territory at home and abroad, as in the case of the farm staples, but it is not difficult to increase the production of raisin-grapes in California, as appears from the above figures. As the price goes up, naturally the acreage in grapes has been expanding, and Mr. Seymour is responsible for the statement that the plantings to date indicate that within five years the production of raisins will be above 400,000 tons per year. The price is behind the production, but behind the price must be consumption. The raisin crop each year must disappear in consumption to make way for the next. Price-fixing that would merely provide for buying and storing the crop would accomplish nothing.

That the raisin-growers appreciate this is to be seen by the price declines of the last two years. The price must be adjusted to clear the market. Nothing but the success of the management in creating a larger demand has sustained the price at the present level in the face of the increased production, and it is evident that in the long run the price of raisins will be fixed by the same old law of supply and demand so often pronounced out-of-date and ineffective. The profits which are earned by superior organization and service will be retained; those which result from mere control over price-fixing will not in the long run be excessive. So long as the returns for producing raisin-grapes are attractive, as compared with the returns upon other crops, production will continue to increase. If the association does not admit all applicants to membership, the latter will compete on the outside; if it admits them it must find a market for their product.

A reorganization of the raisin-growers' association is now being made to enable it to cope more effectively with the increasing volume of production. The growers find it necessary to pay in more capital, in order to create the margin of borrowing power necessary to good credit. Moreover, it is deemed prudent to abandon the practice of contracting to pay the growers a fixed price.

Sugar, Oil and Steel

In the past month there has been a flurry in the sugar market, with rising prices and a controversy as to whether or not the supply and demand situation has warranted the advance. Opinions differ upon that point, and naturally those who think affirmatively have acted accordingly, but among sugar producers the general feeling has been one of anxiety that a repetition of the experience of 1920 be averted. In the latter year a runaway market occurred, with the result that the consumption of sugar was curtailed all over the world, and sugar came to this country in such quantities that a violent reaction occurred, most disastrous to everybody in the industry and the trade. Producers and regular traders are interested in stable conditions, with prices so adjusted that production will not be unduly stimulated and that the supply will move steadily into consumption.

The oil industry is one in which prices are a frequent subject of comment and investigation. Both production and consumption of oil have been expanding at an enormous rate in the last fifteen years. Production at times has increased more rapidly than consumption, and prices have fallen sharply, but over this period of years the price has recovered and advanced, because that was necessary to stimulate production. The demand has been required to make the price and the price has been required to produce the supply. In the last two years stocks of crude oil and the products have increased, but although prices have weakened at times they have recovered. This showing of strength in the face of increasing stocks is explained by the prevalent belief that the production of oil in this country is near the zenith, and that before many years it will begin to fall off, while demand will go on increasing. There are buyers willing to store it. The successive price advances in crude in recent months, in the face of increasing stocks, does not support the theory that oil prices are controlled by a single interest.

In the oil business as in other lines the larger companies have made large profits by a percentage upon the turnover that is low as compared with ordinary business operations.

W. C. Teagle, President of the Standard Oil Company of New Jersey, before a sub-committee of the Committee of Manufactures, United States Senate, a few weeks ago, speaking of the earnings of that company for the period January 1, 1920 to June 30, 1922, said:

The gross sales of the Standard Oil Company (New Jersey) and its domestic subsidiaries in their domestic oil business during the two and a half years period referred to were $1,516,000,000, and the profits from that business were $53,000,000, or 3.56 per cent. Out of every dollar paid by the consumer for our petroleum products in that period we have retained 3.5 cents. Applying this basis of figuration, and assuming that consumers of our gasoline paid an average retail price of 27 cents per gallon, the profit of the company was less than 1 cent per gallon.

It is commonly accepted that the iron and steel business is so closely organized that serious price fluctuations do not occur in its products, but the composite figures of average prices for the principal products of the industry, published monthly by the Iron Age, showed for February, 1922, average prices 49 per cent below the average of August, 1920. The decline in price followed the decline in demand.

Capital Levies

The proposal for a heavy direct levy upon all property values for the purpose of reducing the onerous burden of public debt was endorsed by the Labor Party of Great Britain in the campaign preceding the last election, and the leader of that party, Ramsay McDonald, has recently declared that the party will continue to stand for the policy. Aside from the fact that the idea of despoiling the rich is a rather appealing one to many people, the proposal for a capital levy for debt-paying purposes seems to have enlisted considerable support, the attractive idea being that of making a great reduction in the public debt at one stroke, in order that taxation might be reduced thereafter.

The following statement, taken from a letter appearing in the London Times, in which reference is made to Mr. Clynes, one of the labor leaders, indicates how readily the public rises to the old idea of getting something for nothing whenever it is presented in new form:

The object which Mr. Clynes has, I believe, in view, is to increase the wages fund by every possible means; he wishes, by the redemption of debt, to set at liberty for employment as capital the large sums at present applicable to the payment of interest on the various loans raised by the Government during the Great War. Supposing that this could be accomplished without grave injustice or disturbance of credit, the nation, I think, would stand to gain; for a redemption of debt upon a large scale appears to be an indispensable preliminary to any reduction of our income-tax to something like its pre-war level.—Rev. Walter Crick, Oving Rectory, near Chichester.

Of course it would be very desirable to effect a reduction in the public debt. There can be no argument about that. If a benefaction could be vouchsafed from On High to pay the public debt of Great Britain or the United States, in such manner that every creditor would have his claims satisfied in full without cost to the tax-payers, a miracle would be performed, and nobody would raise a protest against it. However, it is not likely that even the reverend author of the above quotation is expecting a miracle of this kind. Nor does he have any definite idea of how large sums of money can be paid by the Treasury without first collecting them from somebody. He probably does not consider that the solution of that problem is up to him; the leaders of a political party have proposed to get rid of the debt, and it strikes him that the purpose is a laudable one, providing, of course, it can be accomplished without any unpleasant effects.

The Dislocation of Capital

The trouble with the scheme is that it dips out of the same pool that it pours into. It proposes to relieve the industries of future taxation, thereby it is argued, enlarging the wage-fund, but the process would take a large part of their capital away from them at one swipe.

In the United States the income and so-called excess profits taxes have been made payable in installments, for the express purpose of enabling the tax-payers to make payments, so far as practicable, as income accrues and is available in the form of cash. The fact that this consideration is shown in the collection of taxes which take only a portion of the tax-payer's income, suggests how serious would be the effects of attempting to collect at one time a levy deliberately fixed much in excess of the tax-payer's total annual income.

It is one of the first and most fundamental rules of sound taxation that it shall not exceed income, or compel the tax-payer to part with any portion of the capital necessary to carry on his regular business. If taxation is so heavy as to require the sale of fixed investments, the tax-payer will not only suffer the loss of the amount taken by the government, but an additional loss by reason of the sacrifice he is compelled to make under forced sale. If the situation was general, so that nearly every property-owner was under the necessity of borrowing or selling, there would be no buyers and a state of panic would result. Of course all business and employment would be adversely affected, the regular revenues of the Treasury would decline, and the "wage-fund" would be reduced instead of increased.

Such a levy would seem to relieve tax-payers who paid upon personal earnings or consumption, at the expense of tax-payers who paid upon income derived from capital, but when the disturbance of all business conditions is taken into account it will be found that the former would suffer rather than gain. The

regular processes of industry cannot be demoralized without affecting personal earnings.

The theory is advanced that it would not reduce the actual amount of capital in the country, or even despoil the capitalistic class, as it would simply take capital from one set of owners and give it to the holders of the government debt, who are also capitalists. On the other hand, it certainly would not increase the wealth of the country or the productivity of the industries; for only as the debt is paid by savings is the wealth of the country increased.

The evil effects of the scheme would come from the confusion that must result from forcing a great transfer of capital from one set of owners to another. Imagine the owner of real estate, perhaps already mortgaged, compelled to meet a tax-levy of one-half, or even one-quarter of its value, or a manufacturer obliged to meet a similar levy upon his invested capital. Allowing it to be true that in the long run the stated sums must be raised, is there any doubt as to the choice of the tax-payer, as between heavy taxation of income over a long period of years or confiscatory taxation of his capital? Or can there be any doubt that what is best for the tax-payers as a class is best for all classes in the country? The scheme does not recognize the importance of stability in business affairs.

The Government as a Partner

It is suggested that the capital tax would be payable in installments, or that the government would accept a proprietary interest in every tax-payer's property and business, which he might buy back eventually or that might be sold on the market as opportunity offered. If the installment idea means that payments will be made out of income, it is an abandonment of the capital tax and a return to the income tax. If, on the other hand, the levy is one which cannot be paid out of current income, the transfer of an interest in the business will accomplish nothing. It will not increase the amount that can be gotten out of the property. Productivity will not be increased, and the ability of the individual owners to pay taxes will be reduced. Neither the wealth of the country nor the welfare of any part of its population will be enhanced by having the government take over any share of the industries, even if it gets them for nothing. The benefits arising from the industries are in what they produce, and if anything has been demonstrated by government activities in industry it is that they do not increase production.

The Swiss Referendum

The capital-levy scheme met a signal defeat in Switzerland in December. The Swiss right of initiative entitles any fifty thousand citizens to initiate legislation, and in the exercise of this right the Socialist Party brought forward a bill levying a tax of 8 per cent. on capital sums of about $15,000, the rate of tax rising to 60 per cent on fortunes over $500,000. Both Chambers of the Swiss Parliament rejected the proposal by overwhelming majorities, and petitions were circulated for a referendum. The plan was put forward by the headquarters of the Socialist Party, not for the purpose of redeeming debt, but to provide funds for social reforms. It appears that 88,000 persons signed the capital levy petition and the vote was 109,434 in its favor, with 730,584 votes in the negative.

As soon as the date of the plebiscite was actually fixed public excitement began to grow. In one week withdrawals of bank deposits were estimated to have exceeded 100 million francs; Swiss bonds and shares were sold wholesale, and the proceeds reinvested in foreign sceurities. In other words, Swiss securities were transferred in large amounts to foreigners, who were to be exempt from the levy. As was to be expected, the anxiety to sell caused a heavy decline in the values of securities; State funds fell on an average by 2 per cent in one week, and in the same period other Swiss securities lost 1 per cent of their value. Efforts to raise new capital were completely checked. The town of Winterthur, which invited subscriptions of five million francs in four-and-a-half per cent bonds, received applications for only about one-quarter of the amount which it needed. Work people in their alarm at a possible raid on their savings withdrew their balances from the banks; the rate of interest rose, and if it had continued, as it would have done if the bill had been passed, business enterprise, which depends upon bankers' credits, would have been severely checked. Several Socialist meetings held on November 26 passed resolutions protesting against the project, and several influential labor leaders turned against it.

The Schemes for Leveling Possessions

Schemes for taking property out of the hands of the rich usually are prompted by the idea that they have more than they need while other people have less than they need. The property which is available for distribution, however, for the most part, is productive property, i. e., property whose value consists in the production of a stream of goods entering into general consumption. It is an abundance of these consumptive goods that is of real importance, and that depends upon the skill, knowledge and ability with which the productive properties are managed. Under the existing competitive system property tends to increase in the hands of the people most competent to manage it and make it productive, and this is desirable from the standpoint of

the less competent, as well as of the more competent, because it increases the general supply of consumable goods. It would be very satisfactory to have a more equal distribution of wealth, provided it signified that the masses of the people were rising to the intelligence and capabilities of the leaders, but otherwise it would be unfortunate, because production would be diminished.

It has been shown over and over again, by calculations which cannot be disputed, that an equal distribution of the national income would not give every head of a family as much as the average skilled worker now receives. There must be some premium for superior service, and when this principle is conceded the theories for improving the common welfare by levelling individual possessions are all found to be illusory.

European Consumption

We have a letter from an American citizen temporarily in Europe, written from Paris, containing the following paragraph, which is passed on to the wheat-producing regions for such consideration as they may think it merits. Suggestions along this line when made by Eastern bankers have not always been favorably received:

I have also wondered whether the systematic campaign being carried on here in France at the present time in the direction of reducing the consumption of wheat has been brought to your attention. This propaganda, under the direction of the Ministry of Agriculture, is being carried on throughout all of France through placards in public places, in the restaurant cars and even in the headlines of some of the newspapers on a scale suggesting the similar campaigns undertaken during the war. This campaign is coupled with positive directions applying to bakers requiring the mixing of a certain portion of rye, barley or potato flour with wheat in bread making, and I am told that the Ministry of Agriculture has anticipated decreasing the importation of wheat by one-half, from say two million tons a year to approximately one million tons. I have enquired of the principal wheat importers as to whether this campaign has actually had a practical effect in reducing the volume of importations to date, and their opinion seems to be that it has not yet had any appreciable effect in this direction. In the long run, however, it seems to me it must have some influence, and that therefore Mr. Borah's conversion to the belief that something affirmative must be done to aid in the solution of the European problem is an intelligent reversal of attitude in the interest of the American producer.

Guaranty of Deposits

We venture to make public the following extract from a letter recently received by us from a correspondent bank in one of the States where the banks are operating under an official guaranty system. Commenting upon this system the letter says:

In addition to having our own troubles to take care of we have had to help pay off these "busted" banks. In the last two years and a half they have assessed us about one-half of our capital stock, very little of which we expect to get back. In fact we have charged off our total earnings for the last two years, passing our dividends on this account, and I am glad to report that we now have our assessment charged down to about $6,800.00, which I feel was doing pretty well under the existing conditions.

Of course such a system multiplies banks, increases the competition for deposits and has the tendency to make all banks look alike to the public. Character counts for nothing in the banking business, where the banker who has it is compelled to back up the banker who doesn't have it. The effect is to favor the accumulation of deposits in untrustworthy hands and compel the good bankers to stand the losses which their competitors make. The public is reimbursed, but the economic losses which result to the community from the waste of capital is a serious matter, not to speak of the injustice inherent in the system.

World's Paper Currency, 1914 to 1923

(By O. P. Austin, Statistician, The National City Bank of New York.)

World paper currency made its most spectacular record in 1922. Measured by the nominal or face value of the respective currencies, the world's note circulation, outside of Russia, today aggregates 10 times as much as one year ago. Russia's total is 40 times as much as a year ago, Germany 35 times, Austria 17 times, Poland four times, and Hungary three times as much as one year earlier.

This startling record of the five principal countries of Central Europe, while it greatly enlarges the world's nominal total, is in marked contrast with that of the remaining 30 countries for which late currency figures are available, since one-half of the 30 show decreases in 1922 and the remainder but comparatively slight increases. The 30 countries, outside of the five Central European States above named, show a net increase of but 4% in their total circulation in the year ending with March, 1923.

This enormous increase in the grand total of world paper circulation does not of course mean a corresponding increase in purchasing power, for in the countries in which great increases occur the advance in prices measured by the inflated currency has about kept pace with the quantitative increase in paper. But it is a fact that the world's total, exclusive of Russia, measured by face value, aggregates today 10 times as much as one year ago, although the total of the non-Soviet world had scarcely more than doubled in any single year from the close of the war to the beginning of 1922.

That this large increase in world paper currency has not been accompanied by any corresponding increase in gold available as a re-

serve, is evidenced by the fact that the world's output of new gold in 1922 is the smallest in the past 20 years, being but $350,000,000, of which over two-thirds was sent to the United States.

Some Details of the Deflation

This startling record of world currency during the past year justifies a brief study of the details. Russia's total of paper currency, according to statements by her Commissar of Finance, stood at the end of 1921 at slightly more than 11,000,000,000,000 Soviet rubles, and according to the London Economic Review of January 26, 1923, was 450,000,000,000,000 rubles at the end of 1922, the total at the end of 1922 being thus 40 times as much as one year earlier. Germany's total in March, 1922, stood at the comparatively moderate figure of 121,000,000,000 marks, against 4,272,500,000,000 on March 15, 1923, the total at the latter date being thus 35 times as much as one year earlier. The increase in the week ending March 15 was 401,200,000,000 marks. Austria's total in January, 1922 stood at 239,600,000,000 crowns, and 4,113,000,000,000 in March, 1923, or 17 times as much at present as one year ago. Hungary's total stood at 26,000,000,000 marks in 1922 against 74,000,000,000 in 1923, or about three times that of a year ago, while Poland showed a total of 239,000,000,000 marks in 1922 compared with 909,000,000,000 in 1923, being thus about four times as much as one year ago.

The decrease in purchasing power of the paper in the countries in which large quantitise of currency have been issued is illustrated by a statement published in U. S. "Commerce Reports" of February 19, 1923, which says that "The inflation of the (Soviet) currency continues on an enormous scale, and prices in terms of this currency at the end of the year were about 15,000,000 times pre-war prices." The same authority states in its issue of March 19 that "prices in Poland at the end of 1922 were approximately 3,000 times as high as before the war."

The second distinct record made during the year consists, as already indicated, of actual reductions of notes in approximately 15 countries and a distinct check in the rate of growth in fifteen others. The list of countries in which actual reductions have occurred includes Great Britain, the Scandinavian States, Netherlands, Switzerland, Spain, Czecho-Slovakia, the British colonies generally, Japan, Egypt and the United States. The countries in which the increase is comparatively small include France, Italy, Belgium, Bulgaria, Roumania, Greece, Jugo-Slavia, Portugal and Brazil.

Efforts to Reestablish Relations to Gold

One of the interesting features of the year's developments in those countries that are swimming in fiat paper money, has been the movements inaugurated in several to get back to relations with a gold basis. They all show a longing for gold, notwithstanding the fact that some of the governments started on their wild paper money jag with the avowed belief that the idea of a gold basis was an invention of the "international bankers," for the purpose of exploiting the common people.

These efforts to re-establish fixed relations between the currencies and gold of course are futile so long as currency issues continue to be made for the purpose of meeting treasury deficits, but the proposals and preparatory legislation show that the governments have become convinced of the necessity of getting back to a metallic unit of value.

The Polish Government some months ago endeavored to rectify the position of its paper currency by the attempted issue of a loan expressed partly in terms of gold "Zlotys," one "Zloty" being equivalent to one gold franc, but as the loan under those terms did not prove a success the proposed new unit, "Zloty," has not been put into actual use as a method of measurement of the existing paper currency. In Russia the issuing department of the new State Bank has begun the issuance of gold bank notes in denominations "Tscherwonzy" (I "Tscherwonzy" equalling 10 gold rubles) and these have been issued in a comparatively limited quantity, fully covered by a special reserve of gold and foreign exchange held by the State Bank. Efforts to use this standard in measurement of existing paper rubles, however, are held in abeyance, and the paper ruble still continues as the standard unit in business transactions. In Germany a proposal has been discussed for some time for a government loan payable in terms of gold for the purpose of giving the people a form of investment of stable value to which they could resort instead of foreign currencies or securities, the idea being that it would change hands readily and can be redeemable in the mark currency at the value of the latter from day o day. This plan finally has taken form in a gold loan of $50,000,000.

In Austria officials are still utilizing the gold crown as the basis of their financial statements and estimates for the deficits of the coming year and the government has been able by means of aid obtained through the League of Nations to establish a new central bank of issue which is entirely dissociated from the treasury. No increase in the currency supply of Austria has been made since November 18, 1922.

In Hungary and Czecho-Slovakia a new gold currency unit to bear the title "ducat" which is to have a mint parity equivalent with that of the British sovereign has been proposed by governmental officials, and a statement is made

that the Czecho-Slovakian Government intends to mint gold ducats in the near future and put them into circulation, though not yet ready to undertake the task of establishing a fixed gold value for the paper currency. The Latvian Government has adopted the practice of budgeting in gold values, the gold "lat" being equivalent to the gold franc. In Lithuania a gold unit for purposes of calculation bearing the title "lita" is utilized, the equivalent being one-tenth of the United States Dollar.

Commenting upon these efforts in behalf of the gold currency unit, made in recent months by countries having very great quantities of paper currency, the London Statist of February 17, 1923, remarks that:

> The important bearing of this practice on European financial reorganization and the desirability of its adoption in all countries whose paper currencies have ceased to perform a sufficiently stable measure of value, is of much greater importance than might appear at first sight, one significance being that the countries concerned have committed themselves to future adoption of the gold standard when universal currency stabilization will eventually be achieved; and also means that official sanction has definitely been given by these governments to the principle of devaluation of their present currencies, and that they have thus recognized the failure of the existing currencies to perform the functions of money, and asserted their right to redeem the present monetary units not at their issue values but at their depreciated values.

Government Deficits

The excess of expenditures over actual receipts is the underlying cause of the increases, especially the recent increases, in paper currency. With governmental expenditures exceeding receipts from taxation, the excess of payments can only be met by new borrowings or by increases in the issue of paper currency, and with the difficulties which many countries find in floating new loans the issue of additional currency is the last and only resort of the government, which must find some way to meet the daily demands resulting from an excess of expenditures above actual receipts. This "deficit habit," which prevailed in many countries during the war and has in too many instances continued since that period, is doubtless due in some degree to the inability or unwillingness of the authorities to reduce the number and compensation of their civil and military employees to the pre-war figure, while the reduction in purchasing power of the currencies in many countries compels increases in the nominal salaries and in other expenses. Even in the Unitd States, where the fields beckon and the factories clamor for service, and where radical efforts have been made to reduce governmental expenses in recent years, the number of its employees and the compensation paid them still stand materially higher than in the year preceding the war.

These deficits appear in the 1923 budget estimates of nearly a score of countries the world around, but especially in Europe. What they will aggregate in total, and especially in those countries in which currency depreciation compels a continuous enlargement of the deficit, cannot be definitely stated, but a few examples cited by the London Statist in its recent issues evidence the prospect of still further increases in paper currency which these budget deficits seem likely to produce. The Austrian "Economy Budget" for 1923, says the Statist, estimates for deficit of 5,294,000,000,000 paper crowns. This is being reduced by the management of the Financial Adviser, Mr. Zimmerman, of Holland, who represents the League of Nations.

Budget figures for Germany have to be constantly revised in an upward direction owing to the rapidity of the depreciation of the mark, and the latest budget estimate announced in the Reichsrat on March 20 shows, according to Associated Press dispatches from Berlin of date March 21, a deficit of 7,100,000,000,000 paper marks for the year 1923. In France, the estimates for the "ordinary budget" alone indicated a deficit of about 3½ billion francs, but efforts have more recently been made by the legislative bodies to enact new revenue measures by which the suggested deficit may be reduced. In addition to the ordinary budget, however, France has to provide for the "special" budget, devoted to reconstruction work.

Even conservative Czecho-Slovakia estimates for 1923 a deficit of 559,000,000 crowns, which, however, it expects to cover without borrowing or currency issues; the Belgium deficit is estimated as 2,935,000 francs; the Italian budget for 1922-3 4,000,000,000 lire, while in most of the new Baltic States the deficit contagion has been felt and their 1923 estimates call for expenditures somewhat in excess of their estimated receipts. For Portugal, the Financial Chronicle puts the 1923 deficit at 500,000,000 escudos, and the Economic Review in recent issues indicates a slight deficit for conservative Netherlands and Switzerland. Announcement of large Soviet deficits from month to month during 1922 presage still further enlargements of the Soviet currency in 1923. This deficit habit has apparently extended even to the Far East, for the U. S. Commerce Reports, under date of March 12, 1923, state that the budget of India for 1922-3 shows a deficit of 175,000,000 rupees, and statements of Indian Government officials indicate that deficits have occurred on frequent occasions in recent years.

The table which follows shows from official records wherever possible, and in other cases from accepted authorities, the quantity of paper money and gold reserve in 35 principal countries of the world in 1914, 1919, 1922 and 1923. The figures for 1923 both as to paper circulation and gold reserve are for the latest date obtainable, while those of 1922 are for the

corresponding date in that year, thus rendering practicable a determination of the percentage of increase or decrease in the respective countries during the past 12 months. The figures are presented in the currencies of the respective countries only, the extremely low and constantly fluctuating exchange value in many cases rendering impracticable any attempt to reduce them to the common unit of United States Dollars as on former occasions.

WORLD PAPER CURRENCY
1913 to 1923
(000,000 omitted)

	1914		1919		1922		1923	
	Note circulation	Gold	Note irculation	Gold	Note Circulation	Gold	Note Circulation	Gold
Argentina ....peso	803	224	1,177	390	1,363	471	1,363	481
Australia ....£	10	3	55	24	52	23	52	23
Austria ....crown	5,138a	1,194a	37,107	239a	239,695b	3	4,113,000	49,306
Belgium ....franc	934	323	4,697	364	6,295	267	6,902	269
Brazil ....milreis	980	*	1,720	54	2,074	79	2,226	89
Bulgaria ....lev	165	7	3,013	37	3,629	63	3,959	58
Canada ....dollar	210	155	534	203	416	151	464	222
Chili ....peso	224	108	221	72	296	115	273	114
Czecho-Slovakia ....crown	....	....	....	....	11,038	1,327j	8,982	822j
Denmark ....krone	157	77	436	187	450	228	443	229
Egypt ....£	3	2	46	3	32	3	....	......
Esthonia ....mark	....	....	....	....	350c	82	1,300c	63
Finland ....finmark	124	35	974	43	1,357	43	1,413	43
France ....franc	5,812	3,730d	36,655	3,595d	36,150	3,577d	37,055	2,671
Germany ....mark	2,014	1,314	28,492	1,103	121,930e	996	3,871,788	1,005
Greece ....drachma	257	....	1,369	1,589f	2,130	1,365f	4,500	1,428
Hungary ....crown	g	g	g	g	25,924	13	74,058	14
India, British ....rupee	661	315	1,535	175	1,747	247	1,732	243
India, Dutch ....florin	112	*	214	*	329	*	*	*
Italy (m) ....lire	1,557	1,222	13,854	1,236	14,547	850	13,405	884
Japan ....yen	327	219	1,064	778	1,245	1,215	1,167	1,064
Jugo-Slavia ....dinar	....	....	....	....	4,640	75	5,301	63
Netherlands ....florin	317	163	996	632	989	606	941	582
New Zealand ....pound	1,998	*	7,226	*	*	*	*	*
Norway ....krone	113	44	429	148	368	147	344	147
Peru ....pound	3	1	4	5	*	*	6	5
Poland ....mark	....	....	33,204h	9h	239,332	26	1,177,000	41
Portugal ....escudo	113	9	427h	9h	723	9	1,047	9
Roumania ....leu	762	301	2,987	1,000	13,672	496	15,264	533
Russia ....ruble	1,590	1,554	17,872	1,256i	11,000,000	*	450,000,000	*
Spain ....peseta	1,902	522	3,635	2,406	4,207	2,525	4,116	2,525
Sweden ....krone	227	105	687	300	541	274	504	274
Switzerland ....franc	276	171	898	466	825	550	841	531
Turkey ....pound	1	*	*	*	150	*	150	*
Union South Africa....pound	2	8	8	8	*	*	*	*
Uruguay ....peso	20	11	66	55	64	55	64	55
United Kingdom (k)....pound	29	40	394	108	418	158	401	155
United States ....dollar	1,056	1,023	4,050	2,107	3,302	3,099	3,266	3,226

a Austro-Hungarian Bank (includes Austria and Hungary).
b Exclusive of 20,000,000 notes of Austro-Hungarian Bank.
c Exclusive of rubles and finmarks largely circulated.
d Exclusive of holdings abroad.
e Exclusive of Darlehnskassenschein.
f Includes holdings abroad.
g Included with Austrian figures (Austro-Hungarian Bank).
h 1920.
i 1918.
j Gold, silver, balances abroad, etc.
k Includes Bank of England and "Currency Note Account."
m Bank of Italy only.
* No data.